

INTERNAL REVENUE SERVICE
District Director

Department of the Treasury

Post Office Box 2350
Los Angeles, CA 90053

Date:

Person to Contact:

Telephone Number:

Employee Identification Number

Please Refer To:

Dear Applicant:

We have reviewed your application for tax exemption under section 501(c)(3) of the Internal Revenue Code of 1986.

The information submitted indicates that you were incorporated in the State of [REDACTED] under the Nonprofit laws on [REDACTED].

Article III of your bylaws defines active membership in the [REDACTED] as a requirement for all parents or guardians of gymnasts who are on a competitive team for [REDACTED]. As of [REDACTED], there were [REDACTED] families who held active membership.

Associate membership is defined, in the same article, as any parent or guardian of gymnasts who are in the recreational program. Associate membership is not required, but all participants in the recreational program are invited to join. As of [REDACTED], there were [REDACTED] families who held associate membership.

Honorary membership is defined, in the same article, as any business or individual who is interested in furthering gymnastics in your community. As of [REDACTED], there were [REDACTED] honorary members.

[REDACTED] is a for profit entity which is privately held.

According to your application for tax exemption, the purpose of your club is to raise funds in order to:

- provide uniforms
- pay travel expenses
- pay meet fees
- pay the coach's travel and expenses
- sponsor and put on meets
- bring international teams to the area
- sponsor area-wide gymnastics and sports acrobatic events

Code	Initiator REVIEWER	Reviewer EP/EO:TB:REV	Reviewer EP/EO:TB	reviewer	reviewer	reviewer	reviewer
Surname	[REDACTED]	[REDACTED]	[REDACTED]				
Date	4-18-92	4/27/92	4-28-92				

[REDACTED]

All of these events, except for travel, was to be held at the [REDACTED], which is privately owned.

Section 1.501(a)-1(c) of the Income Tax Regulations states that the words "private shareholder or individual" in section 501 refer to persons having a personal and private interest in the activities of the organization.

Section 1.501(c)(3)-1(c)(1) of the Income Tax Regulations states that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more exempt purposes specified in section 501(c)(3). An organization will not be regarded exempt if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations states that an organization is not organized and operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. Thus, in order to meet the requirements of this section, it is necessary for an organization to establish that it is not organized or operated for the benefit of private interests such as designated individuals, the creators, shareholders of the organization or persons controlled, directly or indirectly, by such private interests.

Revenue Ruling 69-175, 1969-1 C.B. 149, describes an organization formed by the parents of pupils attending a private school exempt under section 501(c)(3) of the Code. All control over the organization rests with the parents. The organization provides bus transportation to and from the school for those children whose parents belong to the organization. The ruling states that when a group of individuals associate to provide a cooperative service for transportation for school children, under the circumstances described, the organization serves private rather than public interest. Accordingly, this organization did not qualify for exemption under section 501(c)(3) of the Internal Revenue Code.

In *Better Business Bureau of Washington, D.C., Inc., v. United States*, 326 U.S. 279 (1945), the Supreme Court of the United States interpreted the requirement in section 501(c)(3) of the Internal Revenue Code to mean that an organization must be devoted to exempt purposes exclusively. They found that the presence of a single non-exempt purpose, if substantial in nature, will destroy the exemption regardless of the number and importance of truly exempt purposes.

Although your Articles of Incorporation indicate that your organization is open to athletes who do not attend the [REDACTED], it is apparent that your activities are geared toward those children who do attend this gym. Your organization's name is the [REDACTED]

[REDACTED]

[REDACTED]. All of your officers have children attending this gym. Some of your purposes are to provide uniforms and pay travel expenses. If the parent's club did not raise the funds for these purposes, the parents, or the athletes themselves, would otherwise have to pay for these expenses. By using the parent's club, you are serving the private interests of those club members.

In addition, although the parent's club is run separately from the gym, the benefits for the for-profit gym are substantial. If the team is good, the gym's reputation is enhanced. This goodwill induces more people to enroll in the for-profit gym. In addition, by paying travel expenses for the coach and the meets, the club is enhancing the for-profit gym. Also, by sponsoring and bringing international teams to the area, the parent's club is enhancing the reputation of the for-profit gym.

By serving the interests of the private individuals you are not operating exclusively for an exempt purpose and thus, you are not exempt under section 501(c)(3) of the Code. Section 1.501(c)(3)-1(c)(1) and section 1.501(c)(3)-1(d)(1)(ii) of the Income Tax Regulations require that you operate exclusively for an exempt purpose.

You are analogous to the organization described in Revenue Ruling 69-175 which was held to be primarily engaged in activities designed to fulfill the responsibilities of the parent-members. The school these children were attending was exempt under section 501(c)(3) of the Internal Revenue Code. Thus, it would not make a difference if the [REDACTED] was exempt.

[REDACTED] is required to file Federal income tax returns annually with the appropriate service center.

Contributions to [REDACTED] are not deductible under Internal Revenue Code section 170.

As provided by section 6104(c) of the Internal Revenue Code of 1986 and the applicable regulations, the appropriate state officials are being notified of our determination.

If you are in agreement with this proposed determination, we request that you sign and return the enclosed agreement, Form 6018. Please note the instructions for signing Form 6018 are on the reverse side of that form.

If [REDACTED] is not in agreement with this proposed determination, we recommend that you request a hearing with our Office of Regional Director of Appeals. Your request for a hearing should include a written appeal giving the facts, law and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a hearing. The hearing may be held at the Office of Regional Director of Appeals, or if you request, at a mutually convenient District Office. A self-addressed envelope is enclosed.

If we do not hear from you within 30 days from the date of this letter, and if you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies and will then become our final determination. Section 7428(b)(2) of the Internal Revenue Code provides in part that, "A declaratory judgement or decree under this section shall not be issued in any proceeding unless the Tax Court, the Court of Claims, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service".

If you have any questions, please contact [REDACTED] at [REDACTED].

Sincerely yours,

District Director
Los Angeles District

ENCLOSURES:
Publication 892
Form 6018
Self-Addressed Envelope